

- Workers in BC earned nearly \$21 billion in the second quarter
- Residential investment up 3.9%; spending on non-residential buildings rises 19.1%
- University students in BC face a 2.9% increase in tuition fees

## The Economy

- Wages, salaries and benefits received by BC workers increased 0.8% (*seasonally adjusted*) in June. Labour income in the province has been trending up since February.

Data Source: Statistics Canada

- BC workers earned nearly \$21 billion in the second quarter, 2.3% more than at the beginning of the year. Labour income advanced in every part of the country, but the biggest increases occurred in BC and Alberta (+2.2%). Quebec (+0.8%), New Brunswick (+0.8%) and NWT (+0.9%) were the only regions to post an increase of less than one percent.

Data Source: Statistics Canada

- The demand for new housing in BC remains high. Investment in residential construction expanded 3.9% (*seasonally adjusted*) in the second quarter, largely because builders continued to pour more money into new multi-family dwellings. Spending on apartments and condos was up 12.8%, building on a 4.5% gain in the first quarter. At the same time, investment in row housing increased 3.3%. However, spending on new single (-3.1%) and double (-0.6%) units declined.

Data Source: Statistics Canada & BC Stats

- Investment in non-residential buildings soared in the second quarter, climbing 19.1% (*seasonally adjusted, revised estimates*) after making a modest rebound at the beginning of the year. Investment in new industrial buildings was particularly robust (+38.4%). Spending on institutional and government (+21.7%) and commercial buildings (+14.0%) also advanced.

Data Source: Statistics Canada

- Restaurant, caterer and tavern receipts in the province fell (-0.4%, *seasonally adjusted*) in June after making solid gains in the two previous months. Earnings at drinking places were off 5.1%, while revenues at food service estab-

lishments were unchanged (+0.1%) from May. Canadian receipts advanced 0.7%, with earnings rising at both food service (+0.6%) and drinking (+1.6%) establishments.

Data Source: Statistics Canada & BC Stats

## Travel

- During the second quarter, Canada's international travel deficit reached its highest level in 12 years, fuelled by record spending by Canadians abroad. Canadians spent approximately \$1.5 billion more outside the country than foreigners spent in Canada (*seasonally adjusted*) from April through June. The increase in the deficit was the result of record spending overseas, as Canada's travel deficit with the United States actually fell in the second quarter. Spending by Americans in Canada was down 0.9%, but the drop in Canadian spending south of the border was even larger (-1.5%), and as a result the US travel deficit shrank. In contrast, the deficit for overseas travel grew. First quarter spending by Canadians travelling overseas and by overseas visitors to Canada both reached all-time highs, but the increase in Canadian spending was greater.

Data Source: Statistics Canada

- More Canadians travelled to overseas destinations in the first quarter of 2005 than in any other January to March period, registering a 7.9% increase over the 2004 level. Travel to the United States was also up (+11.9%), although it did not reach an all-time high. Canadians made 5.5 million overnight trips to the US and overseas in the first quarter, 9.8% more than in 2004. This was also a record high for the first quarter.

The most popular overseas destinations for Canadians were Mexico, the Dominican Republic and Cuba. European countries that appealed to Canadian travellers included the United Kingdom, France, Germany and Italy. A 177.7% jump in trips to Italy was likely related to Easter cele-

### Did you know...

Last year, only 20% of family doctors in BC were accepting new patients. Patients in rural areas (42%) were more likely to be able to find a new doctor than those living in urban centres (17%)

brations hosted by the Vatican and the declining health of Pope John Paul II.

*Data Source: Statistics Canada*

### Tuition Fees

- **As university students in BC prepare to return to school, they will be facing a 2.9% increase in the average cost of undergraduate tuition fees.** After a six-year tuition freeze was thawed in the 2002/03 school year, undergrad students in BC faced three straight years of double-digit increases prior to the more moderate increase for this year. From 2000/01 to 2005/06 fees jumped 88.0% in BC, compared to only 22.2% nationwide. However, despite the recent increases, average fees in BC are nowhere near the highest in the country. That distinction belongs to Nova Scotia, where students pay \$6,281 per year, on average. Undergrads in BC pay \$4,874, ranking them fifth in the country, marginally behind students in Ontario (\$4,881). Quebec is in a class by itself with by far the lowest fees, at \$1,900 per year. The Canadian average is \$4,214 per year.

*Data Source: Statistics Canada*

### The Nation

- **The Canadian economy surged ahead in the second quarter, with real GDP expanding 0.8% (seasonally adjusted).** Domestic demand for goods and services remained robust (+0.7%) after surging ahead (+1.5%) at the beginning of the year. The rate of increase for both consumer spending (+0.6%) and business investment (+1.3%) eased down from first quarter levels. Government spending on goods and services grew at a steady pace (+0.8%).

The value of imports fell 0.9%, indicating that more of the demand for goods and services purchased by consumers, business and government were domestically produced. Despite a downturn in the (inflation-adjusted) value of automotive and energy product exports, foreign demand for Canadian goods and services edged up 0.2%, and the trade surplus remained robust. Inventory accumulations continued to grow, but at a slower pace than in the last three quarters.

Corporation profits were up 2.3% (seasonally adjusted and in current dollars) in the second quarter.

*Data Source: Statistics Canada*

- **Canada's current account surplus with the rest of the world increased to \$4.7 billion (seasonally adjusted) in the second quarter, ending three quarters of decline in the size of the surplus.** Higher exports of goods were the main reason for the improvement. Energy products reached their highest value since early 2001, largely due to soaring prices. The demand for Canadian coal products was also strong. The trade deficit for services grew slightly, with bigger deficits for travel and commercial services. The deficit on investment income rose to \$6.0 billion.

Foreign direct investment totalled \$4.8 billion during the second quarter, about half as much as in the first quarter. About four-fifths of the investment came from Europe and the United States. Canadian direct investment abroad was \$7.7 billion.

*Data Source: Statistics Canada*

- **The prices charged by Canadian manufacturers, as measured by the Industrial Product Price Index (IPPI), slipped 0.3% during the twelve-month period ending in July.** A 24.4% year-over-year rise in the price of petroleum and coal products was not enough to offset falling prices of lumber and other wood products (-11.7%), pulp and paper (-3.6%), primary metal products (-3.7%) and a host of other goods. Excluding petroleum and coal products, the IPPI fell 2.3% during the twelve-month period.

Prices for BC softwood lumber continued to drop, falling to 19.0% below the July 2004 level. Both interior (-18.8%) and coastal (-19.7%) lumber producers received less for their product than they had a year earlier.

Raw material prices jumped 13.7%, driven in part by a 30.9% rise in the price of oil and other mineral fuels since July 2004. Wood (-10.4%) and ferrous metal (-16.4%) prices were considerably lower than they had been a year earlier, as were prices for animals and animal products (-8.8%). Excluding mineral fuels, the Raw Materials Price Index slipped 1.6%.

*Data Source: Statistics Canada*

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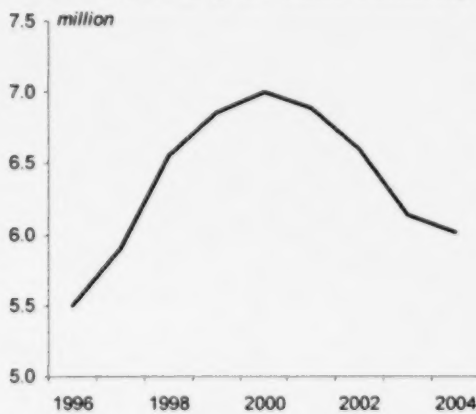
## What Drives US Visitors Away?

American visitors comprise the biggest client base for British Columbia's tourism sector. However, the number of US travellers coming to Canada via BC has declined over the last a few years. This paper examines some of the reasons behind these declines, using linear regression models to analyze how different factors may affect the number of US visitor entries.

### US Travellers Going South or Overseas

The number of US travellers coming to Canada via BC began to decline in 2001 and has fallen every year since then<sup>1</sup>. The downturn predated the events of 9/11, but was exacerbated by them, and subsequent issues such as the SARS outbreak and, to a lesser extent, the war in Iraq.

### Annual Number of US Visitors Entering BC



Data Source: Statistics Canada

According to the US Office of Travel & Tourism Industries (OTTI)<sup>2</sup>, the number of US residents coming to Canada plummeted (-12.3%)

in 2003, while US trips to Mexico only dropped 5.1%. During the same period, however, overseas destinations welcomed 4.5% more US visitors.

As Americans are a significant driving force in BC's tourism economy, a change of interest towards overseas markets could have a huge impact on the province's tourism sector.

What makes BC a less-attractive destination for US travellers? There isn't much inconsistency in the services provided in BC, nor is there any unpleasant incident that keeps Americans from going North (except for SARS, which proved to have little impact in the following analysis). It seems a reasonable explanation could be the cost of travel to BC.

When people plan a vacation, there are several components that always have a price tag attached: transportation, accommodation, food and beverages, admissions and tickets, and souvenirs. Finding the relationships between the costs of these components and the number of US tourists may help explain the recent trend.

### Regression

Linear regression models were used to estimate the relationship between the number of US visitors entering Canada via BC (same-day and overnight separately) with a list of variables, including average motor gasoline retail prices in the US to measure the cost of car transportation<sup>3</sup>, the US Air Travel Price Index (ATPI) to measure the cost of air transportation<sup>4</sup>, the BC hotel average room rate to

<sup>1</sup> -1.6% in 2001; -4.3% in 2002; -7.0% in 2003; -1.9% in 2004;

Source: Statistics Canada

<sup>2</sup> <http://tinet.ita.doc.gov/>

<sup>3</sup> Energy Information Administration, US Department of Energy. (<http://eia.doe.gov>)

<sup>4</sup> US Bureau of Transportation Statistics ([www.bts.gov](http://www.bts.gov))

measure the cost of accommodation<sup>5</sup>, and the monthly average US dollar to Canadian dollar exchange rate to measure the cost of all other travel expenses<sup>6</sup>. Dummy variables were also included to account for the effect of the September 11<sup>th</sup> terrorist attack in 2001 and the SARS outbreak in 2003.

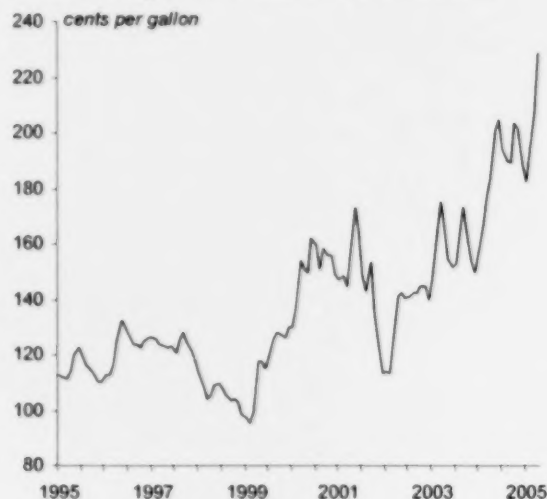
The regressions show that the above variables can explain 89% of the variation in the number of US same-day entries, and 84% of the variation in the number of US overnight trips. In other words, US travellers' diminishing interest in BC can be mostly attributed to these factors.

## Gasoline Prices

Due to the proximity of the two countries, many US residents drive to Canada rather than taking public transportation, giving them a lower-cost means of transportation, and greater flexibility when they travel. Thus, retail gasoline prices play an important role when Americans decide whether to drive to Canada or stay closer to home.

The regression results showed that gasoline price is a significant factor for the numbers of both same-day and overnight visitor entries. One US cent of increase in average gas prices would prevent over 300 same-day and 200 overnight travellers from driving to BC every month.

## US Average Motor Gasoline Retail Prices



Data Source: US Department of Energy

Gasoline prices have been skyrocketing since the beginning of 2002, and there is still no sign of relief. The US average gasoline price in April 2005 was US\$2.28, more than twice as much as the price in January 2002 (US\$1.13). Thus, gas prices are likely to affect the number of US visitors negatively for quite a while.

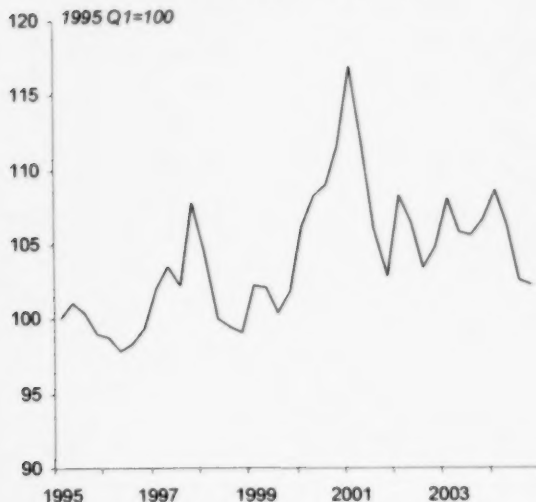
<sup>5</sup> Pannell Kerr Forster Canada

<sup>6</sup> Source: Statistics Canada

## Airfares

Airplane tickets comprise another big portion of total travel costs. When people are making travel plans, air tickets are probably among the first things they consider, especially for overseas or distant destinations.

**US Air Travel Price Index**



Data Source: US Bureau of Transportation Statistics

A rise (or drop) in airfares can be a double-edged sword for the Canadian tourism market. First, the more expensive air tickets to Canada are, the less likely US residents are to fly to Canada for vacation. On the other hand, higher airfares to Mexico or overseas would make those destinations less affordable and hence bring more Americans on visits to their northern neighbour. The regression showed that the second effect has prevailed in the past. In other words, the number of US visitors to BC is positively related to average air travel prices. On average, one point increase in the Air Travel Price Index would bring over 600 more same-day US travellers to BC every month<sup>7</sup>.

<sup>7</sup> The Air Travel Price Index is not a significant explanatory variable for over-night travels

Travellers' confidence, brutal competition, and cost cutting by airlines have all helped forge a downward trend in US airfares since 2001. According to the US Bureau of Transportation Statistics, the US origin air travel price index (ATPI, 1995 Q1=100) dropped from 117 in the first quarter of 2001 to 102 in the fourth quarter of 2004.

## Exchange Rates

The exchange rate between the US and Canadian dollar is another, if not the most, important factor for American travellers. With the Canadian dollar appreciating, transportation to and within British Columbia, accommodation, meals, and all other expenses in the province become less of a bargain for visitors from the US.

In October 2003, BC Stats evaluated the impact of US dollar to Canadian dollar exchange rate (Cdn\$/per US\$) movements on cross-border travel. The conclusion was that variations in the value of the US dollar have positive impacts on the number of both same-day and overnight trips by Americans to BC. This conclusion was also confirmed by this study. The regression results showed that if the US dollar appreciates by one cent relative to the loonie, approximately 1,200 more same-day and 1,100 more overnight US visitors would come to BC every month, and vice versa.

During the period from January 2002 to December 2004 when the value of the US Dollar dropped 23.8% (from 1.60 to 1.22 Cdn\$/per US\$), the number of same-day US visitors to BC slumped 12.8% and the number of overnight entries dropped 8.0%.



## Exchange Rate vs. US Same-day Entries



Data Source: Statistics Canada

Of course, many factors contributed to this trend. In addition to gasoline and air travel prices, the September 11<sup>th</sup> terrorist attack and the SARS outbreak also affected travel to BC.

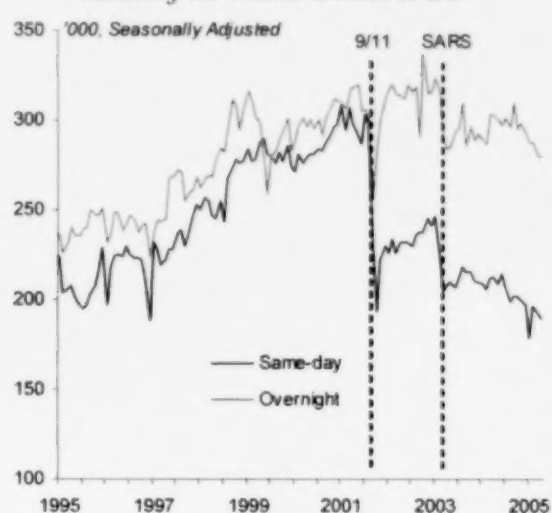
### 9/11 and SARS

To separate and identify the impact of the September 11<sup>th</sup> terrorist attack and the SARS outbreak on US visitor entries, two dummy variables were included in the models.

The regression suggested that 9/11 had a huge negative impact on US same-day and overnight visitor entries. Without the events of 9/11, there would have been 88,700 more same-day and 16,800 more overnight US visitors to BC in each month since September 2001.

The impact of the SARS outbreak, on the other hand, was not as strong. Since visitor entries recovered fairly quickly after the outbreak, the regression did not recognize SARS as a significant explanatory variable for the number of US visitors.

## Monthly US Visitor Entries to BC



Data Source: Statistics Canada & BC STATS

### Accommodations

Initially, average room rates of BC hotels were included in the regression model for overnight US visitor entries, as accommodation also claims a big chunk of travel expenditure. However, no significant relationship was found between hotel prices and the number of US overnight visitors.

## Daily Room Rate of BC Hotels



Data Source: Pannell Kerr Forster Canada & BC STATS

The fact that BC's room rates do not appear to affect the decision making process of Americans is not necessarily a bad thing for BC's accommodation industry. It implies that BC's hotel rooms were priced within an equilibrium range so that they were neither too expensive to scare Americans away nor cheap enough to lure more of them to come over.

It is also possible that instead of influencing overnight US visitor entries, hotel room prices might affect the length of their stay in BC. However, due to the lack of data, this hypothesis was not verified in this study.

### **Are they coming back?**

Our research revealed the main reasons behind the downward trend in the numbers of US visitors coming to BC. The trend was established under the pressure of higher gasoline prices, lower airfares to alternative destinations, a lower value of the US dollar, and residual impact of September 11<sup>th</sup>. But what can we expect to see in the next little while?

High gasoline prices aren't likely to fall back any time soon, especially when OPEC crude oil prices keep ratcheting up to new record levels (US\$54.4 per barrel in July 15, 2005<sup>8</sup>).

US air travel prices are very likely to stay low or go down further, especially after the possible merger of US Airways, American's seventh-largest airline, and America West Airlines. This \$1.5 billion merger deal would create the US's largest budget airline. Together with the already successful low-fare airline—JetBlue, they will bring the airfare war to a new level.

The movement of Canadian dollars against US dollars depends on how both economies perform and many other unpredictable fac-

tors. But one thing is certain: even if the high Canadian dollar starts to fall, the process will take a fair amount of time. And during that period, the exchange rate will keep affecting BC's tourism sector negatively.

It has been almost four years since the Sept. 11<sup>th</sup> terrorist attack, but the number of US visitors to BC has not yet fully recovered. It is difficult to guess how much longer it will affect tourism in BC, but with the recent serial bombing in London, the confidence of US tourists certainly needs more time to heal.

In general, most of the factors identified have been slowing travel from the US to BC in the last several years, and it seems likely that these factors will remain a drag on the tourism sector for quite a while.

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<sup>8</sup> Energy Information Administration, US Department of Energy. (<http://eia.doe.gov>)



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## BC at a glance . . .

<b>POPULATION (thousands)</b>			% change on one year ago
		Apr 1/05	
BC	4,232.5		1.2
Canada	32,146.5		0.9
<b>GDP and INCOME</b>			% change on one year ago
(BC - at market prices)		2004	
Gross Domestic Product (GDP) (\$ millions)	156,481		7.5
GDP (\$ 1997 millions)	138,783		3.9
GDP (\$ 1997 per Capita)	33,072		2.8
Personal Disposable Income (\$ 1997 per Capita)	20,002		1.2
<b>TRADE (\$ millions, seasonally adjusted)</b>			% change on prev. month
Manufacturing Shipments - Jun	3,551		-0.8
Merchandise Exports - Jun	2,858		7.7
Retail Sales - Jun	4,122		-0.1
<b>CONSUMER PRICE INDEX</b>			12-month avg % change
(all items - 1992=100)		Jul '05	
BC	125.7		2.0
Canada	127.5		2.1
<b>LABOUR FORCE (thousands)</b>			% change on prev. month
(seasonally adjusted)		Jul '05	
Labour Force - BC	2,266		0.4
Employed - BC	2,125		0.0
Unemployed - BC	140		7.6
		Jun '05	
Unemployment Rate - BC (percent)	6.2		5.8
Unemployment Rate - Canada (percent)	6.8		6.7
<b>INTEREST RATES (percent)</b>		Aug 31/05	Sep 1/04
Prime Business Rate	4.25		3.75
Conventional Mortgages - 1 year	5.00		4.60
- 5 year	5.80		6.40
<b>US/CANADA EXCHANGE RATE</b>		Aug 31/05	Sep 1/04
(avg. noon spot rate) Cdn \$	1.1889		1.3068
US \$ (reciprocal of the closing rate)	0.8424		0.7652
<b>AVERAGE WEEKLY WAGE RATE</b>			% change on one year ago
(industrial aggregate - dollars)		Jul '05	
BC	698.02		2.5
Canada	701.94		3.8

### SOURCES:

Population, Gross Domestic Product, Trade, } Statistics  
 Prices, Labour Force, Wage Rate } Canada  
 Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics  
 For latest Weekly Financial Statistics see [www.bankofcanada.ca](http://www.bankofcanada.ca)

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### Next week

- Business Indicators, August 2005
- Tourism Sector Monitor, August 2005